# EXHIBIT A

AFFIDAVIT OF ORVILLE D. FULP

STATE OF TEXAS |<br>|<br>COUNTY OF DALLAS |

I, Orville D. Fulp, being duly sworn state as follows:

1. My name is Orville D. Fulp and I am Director-Network Access Services for GTE Telephone Operations. I am responsible for the development, introduction, and management of GTE network access services in the interexchange carrier market segment. In this capacity, I directed an analysis of the impacts of various proposals now being considered by the Federal Communications Commission (FCC) in conjunction with its Notice of Proposed Rulemaking (NPRM) for Access Charge Reform in CC Docket 96-262, released on December 24, 1996.
2. I have over 10 years experience with GTE. During that time I have held various positions, primarily related to pricing, regulatory and product management functions.
3. I have reviewed the NPRM. Among other things, the NPRM seeks comment on various proposals that would affect the ability of GTE to fully recover costs assigned to the interstate jurisdiction according to the current FCC rules. Specifically, the FCC requests comment on proposals modifying or eliminating the Carrier Common Line (CCL) charges, Transport Interconnection Charge (TIC), and pricing of access services at forward-looking costs.
4. In its NPRM, the Commission proposes to revise its access rate structure rules to require rates to reflect the manner in which the ILECs incur costs. Section III of the NPRM discusses these changes. The Commission

proposes to establish new rates for access based on either (i) an FCC imposed set of triggers for providing price flexibility (FCC Market approach) or (ii) a prescription of new access rates using TSLRIC/TELRIC pricing and adjusted price cap indices or X-factor as required to reduce such rates (FCC Prescriptive approach).

5. The analysis I have directed determines the impacts of the FCC's proposals on GTE.[1] Mr. Vogel and Mr. McCormick each provided the underlying input and data used in my analysis. The results of their efforts are documented in separate affidavits. Based upon this analysis, this affidavit will summarize the impact on GTE's interstate revenue stream of the FCC's proposals and the interaction with the Interconnection Order and the Joint Board universal service proposal. I will also address the reasons why the FCC Market approach has the same infirmities as its Prescriptive approach.

6. Based upon this analysis, I conclude that absent specific measures to ensure the competitively neutral recovery of costs associated with CCL, TIC and pricing of access services at the level of hypothetical forward-looking costs, the Commission's proposals will result in a significant under-recovery of GTE's interstate revenue requirement. In addition, the Commission's proposals will result in distortions in both access and local markets, leading to further harm in GTE's ability to recover interstate costs. Finally, I conclude that the establishment of a competitively neutral fund for recovery of interstate costs associated with specific regulatory decisions to implement public policy objectives (such as allocation of common line costs to the interstate jurisdiction in support of affordable local rates and universal

[1] While I only show the impact on GTE, similarly situated local exchange carriers may well have impacts of comparable magnitude.

service) would mitigate these distortions to the access and local markets and the associated revenue impacts on GTE.

*Base Revenues at Risk:*

7. A number of the proposals being considered by the Commission seek to substantially reduce or eliminate so-called non-cost based rate elements, specifically CCL and TIC. GTE currently receives $699 million in CCL revenue and $182 in TIC revenue.[2] Similarly, the NPRM contains proposals to reprice switched access services at the level of forward-looking economic costs including a reasonable allocation of forward-looking joint and common costs. GTE estimates that proposals to reprice current switched access services at estimated TSLRIC + would deprive GTE of the opportunity to earn approximately $500 million.[3]
8. Proposals for recovery of these revenues range from phased reductions through market pricing to a more prescriptive approach. GTE proposes recovery through a separate Regulatory Policy fund in a competitively neutral manner.[4]

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2 See Affidavit of Thomas L. Vogel.

3 Id.

4 Although GTE also proposes a competitively neutral revenue recovery for the change due to full economic recovery of investments through depreciation expenses, this analysis does not address the impacts associated with GTE's proposal regarding economic depreciation. (Cite Mccormick affidavit)

*CCL and TIC:*

9. Today the CCL and the TIC recover costs allocated under current policy to the federal jurisdiction. IXCs pay these costs because they are required to do so under current rules. It is my opinion that IXCs will seek to avoid these costs whenever possible.
10. Under the Market based approach suggested by the Commission, ILECs would attempt to manage pricing of CCL and TIC in such a manner as to recover as much revenue as the market would. A portion of the TIC revenue currently recovers identifiable traffic sensitive cost and should be reallocated to the appropriate rate elements. The remainder of the TIC revenue should be recovered similar to the CCL.
11. Given the opportunity of CLECs and IXCs to utilize either unbundled network elements or physical network alternatives in the provision of exchange access, the market will be unable to support the charges for these elements as currently structured. Further, under the Commission's rules (now stayed) ILECs would be unable to assess CCL and/or TIC to purchasers of unbundled network elements. CLECs would not be required to charge such elements as they are not obligated to recover loop costs from interstate access charges or follow FCC cost allocation rules. Under these conditions, CLECs and IXCs will quickly exercise their options to bypass the CCL and TIC charges of ILECs.
12. Simply put, there is no market for CCL and TIC. CCL and TIC revenue will quickly decline to their "market price" of zero, leaving ILECs with no revenue to cover the costs allocated to these elements as a result of past regulatory policy decisions. Therefore, the entire $881 million of annual revenue that GTE currently receives from CCL and TIC would be at risk if the Commission

were to reach a decision that does not allow ILECs the opportunity to recover these underlying costs in a competitively neutral manner.

13. Other alternatives, such as a gradual reduction in CCL and TIC revenues as part of a prescriptive approach as outlined in the NPRM, will not permit the opportunity for cost recovery. Under the prescriptive approach, the Commission proposes (¶240) to establish a series of intermediate steps between current rate levels and the target price (presumably zero). At each step ILECs would be asked to charge the prescribed rate to those IXCs that originate and terminate interstate traffic to the ILEC network. Again, in my opinion, CLECs and IXCs would quickly exercise their alternatives to bypass the ILEC network and associated charges for CCL and TIC, jeopardizing GTE's opportunity to recover the entire $881 million of interstate revenue currently recovered through CCL and TIC.

14. Even if the Commission seeks to transition these revenues down to a lower level, the fact that ILECs alone are required to price in this manner creates an untenable market position and will quickly lead to a substantial loss of revenue.

15. Alternatively, GTE proposes establishing a competitively neutral funding mechanism to recover this, and other revenues associated with implementation of regulatory policies. It is my opinion that, under this proposal, the CCL and TIC revenues would be recovered, while creating no distortion in the access or local markets. Other access rates would tend to an appropriate market level without the need for further intrusive regulatory intervention.

*Pricing of Switched Access Services at Forward Looking Cost:*

16. The Commission also proposes market and prescriptive approaches for managing a transition of prices for switched access services to the level of forward-looking costs.
17. Under the FCC's market based approach, ILECs would be permitted to recover actual costs through access charges. ILECs' access charges will face competition from CLECs utilizing either unbundled elements or their own facilities. The presence of unbundled elements in the market effectively constrains the ability of ILECs to charge more for Interstate access than the rates established through the state interconnection arbitration process. If the ILEC continues to charge access rates higher than the local switching rate approved by state commissions and there is no requirement for the CLEC to pay interstate switched access, the CLEC will be able to successfully arbitrage the ILEC through use of unbundled network elements. Therefore, in my opinion, appropriate recognition must be given to the relationship of access pricing and unbundled elements.
18. If the now stayed portion of the First and Second Interconnection Orders directing pricing of unbundled elements at the level of forward-looking cost is sustained, rates for access services can be expected to quickly follow to the same level. The difference between GTE's current level of revenues and those achieved at forward-looking costs is $500 million.

CONCLUSION

Absent specific measures to ensure the competitively neutral recovery of costs associated with CCL, TIC and pricing of access services at the level of hypothetical forward-looking costs, the Commission's proposals will result in a significant under-recovery of GTE's interstate revenue requirement.

Orville D. Fulp

Affiant

Subscribed and sworn to before me on this 28th day of January 1997.

Sharon E. Longman

Sharon E. Longman

Notary Public

NOTARY PUBLIC STATE OF TEXAS
SHARON E. LONGMAN
Notary Public, State of Texas
My Commission Expires
SEPTEMBER 29 2000

9-29-2000

Commission Expires

# EXHIBIT B

AFFIDAVIT OF THOMAS L. VOGEL

STATE OF TEXAS |
COUNTY OF DALLAS |

I, Thomas L. Vogel, being duly sworn, state as follows:

1. My name is Thomas L. Vogel. I am the Manager - Access Pricing and Tariffs for GTE Telephone Operations, and my business address is 600 Hidden Ridge Drive, Irving, Texas. In this capacity I have the overall responsibility for, among other matters, developing prices for GTE's access and related services.
2. I am familiar with the revenue analysis prepared for and filed on behalf of GTE in conjunction with the comments on Access Reform.
3. The revenue analysis contains detailed information concerning the level of current interstate revenues derived from interstate switched access services. Also contained is information on the revenue impact of repricing GTE's interstate switched access services at GTE's Total Service Long Run Incremental Cost plus ten percent contribution to common overhead (TSLRIC +).[1] The unit and price information utilized for the revenue analysis is consistent with GTE's booked revenue for 1995. In addition, the information is consistent with GTE's 1996 Annual Price Cap Filing. The methodology essentially involved a "PXQ" analysis of the 1995 annual interstate switched access minutes and the application of FCC tariffed switched access rates to

[1] GTE has utilized ten percent contribution to common cost as the "worst possible case" scenario for "reasonable contribution to common costs", as referenced in paragraph 170 of the First Report and Order. GTE does not support pricing access services at such a low level of contribution, as the Company believes this would not allow an Incumbent Local Exchange Carrier (ILEC) an opportunity to recover its actual costs.

such units. The manner of conducting such an analysis is fully consistent with FCC procedures and industry calculations of revenue streams.

4. These revenue studies, as well as the associated cost information, is confidential and proprietary to GTE. The information contained within these studies is not generally known outside of GTE and its affiliates, is not easily developed, is protected from disclosure to outside parties by the Company and, if the information contained in the revenue studies is divulged to outside parties, would cause irreparable harm to GTE.
5. All of the revenue and related cost information would be extremely difficult or impossible for a competitor to replicate and would not be otherwise available. The information contained in the studies is commercially valuable and would greatly enhance the ability of GTE's competitors in their marketing efforts, should the information become available.
6. If the revenue or cost studies are released, GTE will suffer irreparable harm. The disclosure would allow competitors to address GTE Telephone Operations' strengths and weaknesses and allow them to target strategic points in GTE's business for competitive responses. Furthermore, competitors would know GTE's cost structure and could establish its competitive pricing in response thereto. Moreover, GTE does not have the same opportunity to obtain the same information from its competitors.

7. Data presented in Exhibit 1 are a true and correct representation of the impact of eliminating GTE's interstate revenue received from the Carrier Common Line (CCL) charge and the Transport Interconnection Charge (TIC), and the pricing of current switched access services at GTE's TSLRIC +.

Thomas L. Vogel

Affiant

Subscribed and sworn to before me on this 28th day of January 1997.

Sharon E. Longman

Sharon E. Longman

Notary Public

SHARON E. LONGMAN
Notary Public, State of Texas
My Commission Expires
SEPTEMBER 29 2000

9-29-2000

Commission Expires

# ACCESS REFORM - INTERSTATE REVENUE ANALYSIS

## SUMMARY

| Service Items | REVENUES: 1995 Actual Units | REVENUES: Composite Rate | REVENUES: 1995 Actual Revenues | TSLRIC +: Average GTE TSLRIC + | TSLRIC +: 1995 TSLRIC + |
|---|---|---|---|---|---|
| Total Interstate Switched MOU | 43,356,236,783 | $0.03722 | $1,613,832,188 | $0.00538 | $233,368,312 |
| TIC | | | $182,297,812 | | $0 |
| CCL | | | $698,635,265 | | $0 |
| Switched Access Revenues (No CCL / TIC) | | | $732,899,111 | | $233,368,312 |
| Interstate Switched Composite Rate (No CCL / TIC) | | $0.01690 | | | |
| Revenue Impact (No CCL / TIC) | | | ($880,933,077) | | ($1,380,463,876) |
| Monthly Revenue Impact per Line (No CCL / TIC) | | | ($4.60) | | ($7.20) |

# EXHIBIT C

AFFIDAVIT OF BRIAN W. MCCORMICK

STATE OF TEXAS §
§
COUNTY OF DALLAS §

I, Brian W. McCormick, being duly sworn, state as follows:

1. My name is Brian W. McCormick. I am Director- Regulatory Accounting for GTE Telephone Operations. My business address is 600 Hidden Ridge, Irving, Texas. My principal duties and responsibilities include the direction and supervision of preparation of accounting information associated with Rate Case filings, tariff filings, and regulatory reporting.

2. In conjunction with these comments, I have directed the preparation of a Statement of Interstate Results of Operations for GTE Telephone Operations for the year 1995.

3. The analysis utilizes a baseline view of GTE total telops actual interstate normalized results of operations for the year 1995. This data is a summary of [1]ARMIS 43-01 reports for all GTE study areas and is reflected in column (b).

4. To arrive at the ARMIS 43-01 level of data, total Company information is first divided into regulated and non-regulated operations in accordance with FCC Part 64 rules. Regulated costs are than separated between state and interstate jurisdictions utilizing FCC Part 36 rules. These rules are referred to in the industry as Jurisdictional

[1]ARMIS (Automated Reporting and Management Information System) 43-01, commonly referred to as the "ARMIS Annual Summary Report," is based on requirements set forth in FCC Docket No. 89-182. This summary report is filed each year with the FCC on April 1.

Separations Procedures.

5. The ARMIS 43-01 summarized data reflects that for the year 1995, GTE's interstate revenues totaled $2.8 billion. Operating expenses for the year amounted to $1.9 billion, and after tax income available for return was $558 million. This level of income available produced a return on total investment of 12.71% based on an average rate base of $4.4 billion. This return is lawful under the Commission's price cap and Part 65 rules.

6. Column (c) of the analysis reflects the impact on interstate operations of reflecting full economic recovery of investments through depreciation expenses. This adjustment is made up of two sub-elements. First, the amortization of a $3.1 billion total company reserve deficiency over a five year period is reflected. Secondly, the annual impact of reflecting economic lives in going forward depreciation rates sufficient to recover an additional $4 billion of investment over a six year period is included.

7. The interstate impact of reflecting economic recovery of investment on the 1995 baseline data results is an adjusted achieved rate of return of 9.69% as depicted in column (d).

8. Columns (e), (f) and (g) show the potential effects that FCC actions flowing from the Commission's access reform initiative could have on GTE's interstate revenues.

9. No adjustments have been made to the data to reflect shifts of costs from the interstate to intrastate jurisdiction since no such action has yet been announced by the Federal/State Joint Board. The loss of significant revenues with no corresponding shift in costs would result in a substantial negative income available ($478 million) and

a fall out negative return of (12.37%) as reflected in column (h).

10. Column (i) of the analysis depicts the interstate revenue deficiency that results from all of the adjustments reflected on the baseline 1995 data, based on an assumed 11.25% fair rate of return.

11. Column (j) depicts the adjusted results of operations at an 11.25% rate of return with revenues adjusted to levels consistent with the jurisdictional costs.

The affiant says nothing further.

Brian W. McCormick

Brian W. McCormick

Subscribed and sworn to
before me on this 28th day
of January, 1997.

Alicia M Dorsey

ALICIA M. DORSEY
MY COMMISSION EXPIRES
September 28, 1997

GTE TELEPHONE OPERATIONS
1995 INTERSTATE RESULTS OF OPERATIONS
Amounts In Thousands (000)

INTER STATE

| Line Ref | Description (a) | 1995 ACTUALS PER ARMIS 43-01 (b) | IMPACT OF ECONOMIC DEPRECIATION (c) | 1995 ADJUSTED (b)+(c) (d) | <---- FCC REGULATORY REFORM ----> Eliminate CCL (e) | Eliminate TIC (f) | TS Access To Estimated TELRIC (g) | 1995 ADJUSTED FOR REFORM (d)+(e)+(f)+(g) (h) | DEFICIENCY AT 11.25% ROR (i) | 1995 ADJUSTED TO 11.25 % (j) |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Operating Revenues | | | | | | | | | |
| 2 | | | | | | | | | | |
| 3 | Local Network Revenues | $250 | | $250 | | | | $250 | | $250 |
| 4 | Network Access Revenues | 2,739,735 | | 2,739,735 | (698,635) | (182,298) | (499,531) | 1,359,271 | 1,477,966 | $2,837,237 |
| 5 | Long Dist Network Revenues | 19,466 | | 19,466 | | | | 19,466 | | $19,466 |
| 6 | Miscellaneous Revenues | 100,615 | | 100,615 | | | | 100,615 | | $100,615 |
| 7 | Less: Uncollectible Op. Revenues | 21,696 | | 21,696 | (5,493) | (1,433) | (3,928) | 10,842 | 11,621 | $22,463 |
| 8 | Total Operating Revenues | $2,838,370 | $0 | $2,838,370 | ($693,142) | ($180,865) | ($495,603) | $1,468,760 | $1,466,345 | $2,935,105 |
| 9 | | | | | | | | | | |
| 10 | Operating Expenses other than Taxes | | | | | | | | | |
| 11 | | | | | | | | | | |
| 12 | Plant Specific Operations Expense | $455,398 | | $455,398 | | | | $455,398 | | $455,398 |
| 13 | Plant Nonspecific Op. Expense | 163,567 | | 163,567 | | | | 163,567 | | 163,567 |
| 14 | Depreciation & Amort. Expense | 584,947 | 295,933 | 880,880 | | | | 880,880 | | 880,880 |
| 15 | Customer Operations Expense | 232,101 | | 232,101 | | | | 232,101 | | 232,101 |
| 16 | Corporate Operations Expense | 322,694 | | 322,694 | | | | 322,694 | | 322,694 |
| 17 | Other Op. Income & Expense | 180,265 | | 180,265 | | | | 180,265 | | 180,265 |
| 18 | Total Operating Expenses | $1,938,972 | $295,933 | $2,234,905 | $0 | $0 | $0 | $2,234,905 | $0 | $2,234,905 |
| 19 | | | | | | | | | | |
| 20 | Operating Income Before Taxes | $899,398 | ($295,933) | $603,465 | ($693,142) | ($180,865) | ($495,603) | ($766,145) | $1,466,345 | $700,200 |
| 21 | | | | | | | | | | |
| 22 | Taxes | | | | | | | | | |
| 23 | Operating Taxes other than Inc. Taxes | $90,576 | | $90,576 | | | | $90,576 | | $90,576 |
| 24 | State Income Taxes | 38,503 | (12,669) | 25,834 | (29,673) | (7,743) | (21,217) | (32,799) | 62,774 | 29,975 |
| 25 | Federal Income Taxes | 210,701 | (99,143) | 111,558 | (232,214) | (60,593) | (166,035) | (347,284) | 491,250 | 143,966 |
| 26 | Total Taxes | $339,780 | ($111,812) | $227,968 | ($261,887) | ($68,336) | ($187,252) | ($289,507) | $554,024 | $264,517 |
| 27 | | | | | | | | | | |
| 28 | Net Operating Income | $559,618 | ($184,121) | $375,497 | ($431,255) | ($112,529) | ($308,351) | ($476,638) | $912,321 | $435,682 |
| 29 | Non-Operating Adjustments | 1,142 | | 1,142 | | | | 1,142 | | 1,142 |
| 30 | | | | | | | | | | |
| 31 | Net Income Available for Return | $558,476 | ($184,121) | $374,355 | ($431,255) | ($112,529) | ($308,351) | ($477,780) | $912,321 | $434,540 |
| 32 | | | | | | | | | | |
| 33 | Rate Base | | | | | | | | | |
| 34 | Telephone Plant in Service | $8,381,152 | | $8,381,152 | | | | $8,381,152 | | $8,381,152 |
| 35 | Telephone Plant Under Construction | 97,232 | | 97,232 | | | | 97,232 | | 97,232 |
| 36 | Less: Depreciation & Amort. Reserve | 3,555,061 | 816,500 | 4,371,561 | | | | 4,371,561 | | 4,371,561 |
| 37 | Net Plant | $4,923,323 | ($816,500) | $4,106,823 | $0 | $0 | $0 | $4,106,823 | | $4,106,823 |
| 38 | | | | | | | | | | |
| 39 | Material and Supplies | $18,040 | | $18,040 | | | | $18,040 | | $18,040 |
| 40 | Cash Working Capital | 23,538 | | 23,538 | | | | 23,538 | | 23,538 |
| 41 | Total Other Investments | 240,391 | | 240,391 | | | | 240,391 | | 240,391 |
| 42 | | | | | | | | | | |
| 43 | Less: | | | | | | | | | |
| 44 | Deferred Income Taxes | $802,537 | ($285,775) | $516,762 | | | | $516,762 | | $516,762 |
| 45 | Customer Deposits | 5,613 | | 5,613 | | | | 5,613 | | 5,613 |
| 46 | Other Juris Liabilities & Defer Credits | 3,836 | | 3,836 | | | | 3,836 | | 3,836 |
| 47 | | | | | | | | | | |
| 48 | Total Investment | $4,393,306 | ($530,725) | $3,862,581 | $0 | $0 | $0 | $3,862,581 | | $3,862,581 |
| 49 | | | | | | | | | | |
| 50 | RATE OF RETURN | 12.71% | | 9.69% | | | | -12.37% | | 11.25% |

# EXHIBIT D

IN THE UNITED STATES COURT OF APPEALS
FOR THE EIGHTH CIRCUIT

| | | |
|---|---|---|
| GTE Service Corporation, GTE Alaska Incorporated, GTE Arkansas Incorporated, GTE California Incorporated, GTE Florida Incorporated, GTE Midwest Incorporated, GTE South Incorporated, GTE Southwest Incorporated, GTE North Incorporated, GTE Northwest Incorporated, GTE Hawaiian Telephone Company Incorporated, GTE West Coast Incorporated, Contel of California, Inc., Contel of Minnesota, Inc. and Contel of the South, Inc.<br><br>Petitioners,<br><br>v.<br><br>Federal Communications Commission and United States of America,<br><br>Respondents. | ) | Case No. ________<br>(DC Circuit Case No. 96-1319)<br>(Consolidated with Case No. 96-3321) |

AFFIDAVIT OF ORVILLE D. FULP

STATE OF TEXAS §
§
COUNTY OF DALLAS §

Orville D. Fulp, being duly sworn according to law, states as follows:

1. My name is Orville D. Fulp and I am Director-Network Access Services for GTE Telephone Operations. In that capacity I am responsible for the development, introduction, and management of GTE network access products and services in the interexchange carrier market segment.

2. I have over 10 years experience with GTE. During this time I have held various positions, almost all related to pricing, regulatory, and product management functions.

3. I have reviewed the Federal Communications Commission's ("FCC") *First Report and Order* in CC Docket No. 96-98 which was issued on August 8, 1996. Among other things, the *First Report and Order* concludes (at ¶ 411) that end office switching should be available on an unbundled basis due to the FCC's perception of the difficulties that new market entrants face in obtaining their own capability, *i.e.* so-called "bottleneck" capabilities. This order also establishes default proxy ceiling prices that state regulatory agencies must adopt during arbitration proceedings for unbundled network elements unless or until a state regulatory agency has completed its review of studies that comport to the FCC's prescribed costing methodology.

4. The purpose of this affidavit is: (i) to describe the widespread availability of facilities that shows that the FCC's conclusion regarding the availability of end office switching is not borne out in fact; and (ii) to show the rapidity with which GTE's existing customers will be lost due to the combination of the existing capabilities of competing local exchange service providers ("CLECs") and the uneconomic prices the FCC mandates be used for unbundled network elements.

5. GTE will suffer irreparable harm because the proxy prices mandated by the *First Report and Order* provide CLECs with artificially low and uneconomic cost structures that allow them to undercut GTE's prices at will and win large numbers of customers. The primary factor contributing to this loss of customers will not be the efficiency or resourcefulness of these firms, but rather their artificial cost advantage. Further, GTE cannot respond with price reductions of its own for the retail services that equate to a combination of unbundled elements,

because the *First Report and Order* also requires (at ¶ 932) GTE to resell any retail offering at a huge discount off the retail price. This circular process allows competitors to choose the lower of a combination of unbundled element prices, or the wholesale (resale) price. This means that GTE can never compete on the basis of price since the below-cost proxy price serves as the driver for the entire process. Thus, the practical effect of the mandatory use of the FCC's below-cost proxy prices is that GTE must subsidize the market entry of its competitors.

6. There are many existing CLECs that are already in place and poised to take advantage of the FCC's below-cost proxy prices. As shown in Exhibit 1 attached to this affidavit, there are 289 CLECs with state regulatory approval to offer local exchange service in 20 states where GTE operates, and 184 other CLECs in 26 states that are in various stages of obtaining permission from state regulatory agencies. Exhibit 1 also shows that there are 34 existing colocation arrangements in place in GTE central offices, and another 46 colocation arrangements in the process of construction. A colocation arrangement allows a CLEC instant access to any customer served from that central office because the CLEC can connect its facilities directly to the incumbent local exchange carrier ("ILEC") unbundled loop facilities that link a customer to the network. Furthermore, ILECs are required by the *First Report and Order* (at ¶565, 590) to provide colocation arrangements, including a new form of colocation that combines only unbundled ILEC facilities to create a colocation arrangement. Thus, colocation arrangements will quickly become more commonplace because CLECs do not need to construct any network facilities to obtain colocation.

7. End office switching is neither a difficult function to replicate, nor is it prohibitively expensive. In fact, many new local service market entrants currently have end

office switching capability, either through self-supply or from other new entrants. Exhibit 2 shows there are 27 end office switches owned by CLECs that are currently in place within or near GTE serving areas. This list is in no way all inclusive, but shows only known, publicly announced switches. Further, Exhibit 2 contains other recent announcements published in industry and other periodicals that reveal plans regarding the installation of additional switches. These facts show that end office switching is readily available to any CLEC. This conclusion has been recognized by the Florida Public Service Commission:

> [Switch] ports may not be in high demand from the LECs and [we] believe that they may be more widely available from alternative sources. Many ALECs own their switches, can provide their own ports, and can resell them to other ALECs as well.[1]

8. There are many locations, particularly in urban areas with high volume business customers, where CLECs have been particularly active in constructing their own facilities. Exhibit 3 consists of two maps that show one of many GTE service areas where CLECs have installed end office switching capability, and/or fiber ring loop facilities, and/or have obtained colocation from GTE. In a Part 69 Waiver filing made with the FCC, GTE has demonstrated that, in California alone, less than one percent of customers generate greater than 22% of the minutes of use.[2] Thus, new entrants can and will be targeting selected high volume

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1 In Re: Resolution of Petition(s) to Establish Nondiscriminatory Rates, Terms, and Conditions for Resale Involving Local Exchange Companies and Alternative Local Exchange Companies Pursuant to Section 364.161, F. S., Florida Public Service Commission Docket No. 950984-TP, Order No. PSC-96-0811-FOF-TP, Issued June 24, 1996, at 18.

2 GTE Telephone Operating Companies Petition for Waiver of Part 69 of the Commission's Rules to Geographically Deaverage Switched Access Services, filed November 27, 1995, at Exhibit 2.

customers, and will be able to immediately provide service using their own facilities, or a combination of their own and GTE network elements.

9. CLECs with existing switching facilities and associated infrastructure support systems (*e.g.*, ordering, billing) are particularly well positioned because they can quickly add new customers by simply connecting ILEC loops (possibly through the use of their own transport or ILEC transport available from tariffs today) to their existing switch. However, because the *First Report and Order* permits (at ¶410) CLECs without switching facilities to use unbundled ILEC switching, those firms can also reach large numbers of customers by establishing their business systems based upon use of ILEC facilities. This step is not an insurmountable obstacle, but only reflects the normal start-up interval that any new market entrant will experience, whether the market involves telecommunications or other services. Thus, existing or new CLECs can quickly reach a very substantial number of customers using either their own facilities, or a combination of their facilities and those of an ILEC or another CLEC, or through exclusive use of ILEC network elements.

10. These facts set forth in paragraphs 6-9 above show that: (i) CLECs are already present in large numbers and offering service today; (ii) many other CLECs are poised to enter the market; (iii) CLECs have extensive existing switching capability and loop facilities; (iv) CLECs are actively constructing additional facilities; and (v) CLECs can quickly capture customers by using only ILEC unbundled network elements.

11. Section 252 of the Telecommunications Act of 1996 ("1996 Act") establishes a process wherein CLECs and ILECs negotiate arrangements to interconnect their networks. If these negotiations cannot reach agreement, a schedule for arbitration by the state regulatory

agency is established. *See* §252(b). This schedule is keyed to the date of a request for interconnection, and proceeds separately and independently from the FCC's activities. The schedule established by the 1996 Act calls for interconnection agreements to be in place no later than ten months after a request for interconnection is made. *See* §§ 252(b) and (e)(4). As the McLeod Affidavit (at Exhibit 3) attached to the Joint Motion of GTE Corporation and the Southern New England Telephone Company for Stay Pending Judicial Review filed with the FCC ("*GTE/SNET FCC Motion*") demonstrates, GTE is currently engaged in 23 arbitration proceedings in 20 states. All of these arbitrations must be completed no later than December 12, 1996, and the resulting agreements will become effective no later than January 12, 1997. Thus, on or before that date, a large number of CLECs will have the ability to use GTE's unbundled network elements to provide service to customers using the price level established in the arbitration process.

12. The FCC's *First Report and Order* mandates that a state regulatory agency adopt the proxy ceiling prices for unbundled network elements during the arbitration process unless that state agency has completed its review of cost studies that comport with the FCC's costing methodology. CLECs such as AT&T are already arguing that because the FCC's costing methodology is brand new, and because the state regulatory agencies have not completed studies consistent with the FCC's standards, the state regulatory agencies should simply implement the FCC's proxy prices.

13. As documented by the Supplemental Trimble Affidavit (at ¶¶ 9-10, Exhibit 2), the proxy prices established by the FCC for unbundled switching are far below GTE's forward-looking cost to provide that element. The composite cost per minute (both usage and